

DIRECT TESTIMONY OF

JATON R. SMITH

ON BEHALF OF

DOMINION ENERGY SOUTH CAROLINA, INC.

DOCKET NO. 2021-361-G

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jatón R. Smith, and my business address is 400 Otarre Parkway, Cayce, South Carolina 29033. I am the Manager - Regulation for Dominion Energy Services, Inc. ("DES").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree in Business Administration with a concentration in Accounting in 2002 and a Master of Business Administration degree with a concentration in Accounting in 2004, both from Winthrop University. Following graduation, I worked as an Accountant in the credit union industry and as an Auditor in the health insurance industry. In 2006, I began my employment with SCANA Services, Inc., now part of DES, as an Internal Auditor with the responsibility for evaluating internal controls and performing risk assessments. In 2008, I joined the Fossil Hydro Accounting department as an Accountant and was promoted to Senior Accountant in 2011. My responsibilities included preparing and reviewing journal entries, account reconciliations, variance analyses, and preparing and filing financial reports. In 2015, I joined the Rates and Regulatory Affairs department as a Lead Analyst, a title later changed to Regulatory

1 Specialist, with responsibility for preparing formula rate calculations and filings,
2 regulatory accounting, and data analysis. In 2022, I assumed my current position as
3 Manager – Regulation. I am a Certified Public Accountant in South Carolina.

4 **Q. PLEASE SUMMARIZE YOUR DUTIES WITH DOMINION ENERGY SOUTH**
5 **CAROLINA (“DESC” OR “COMPANY”).**

6 A. My duties include managing the annual Natural Gas Rate Stabilization Act (“RSA”)
7 filing, and preparation and filing of quarterly monitoring reports for DESC. In addition, I
8 manage administration of the purchased gas adjustment, including the monthly forecast of
9 commodity and demand gas cost billing rates and the monthly (over)/under collection
10 balance calculation. My responsibilities also include preparation of DESC financial
11 projections and analyses, as well as the development of cost of service studies, rate analyses
12 and rate design.

13 **Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF**
14 **SOUTH CAROLINA (“COMMISSION”) BEFORE?**

15 A. No, this is my first time testifying before the Commission.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to sponsor the initial rate rider, titled Rider to Gas
18 Rates—Demand Side Management Component (“Gas DSM Rider”), which will allow for
19 the timely recovery of the program costs arising from the new natural gas energy efficiency
20 programs (“Natural Gas EE Programs”) and provide a reasonable incentive for investing
21 in such programs, as authorized by S.C. Code Ann. § 58-37-20. My testimony will also
22 address DESC’s intent to recover the net lost revenues resulting from the proposed Natural

1 Gas EE Programs through the Company's annual Natural Gas RSA proceeding under S.C.
2 Code Ann. § 58-5-400, *et seq.*

3 **BACKGROUND AND STATUTORY FRAMEWORK**

4 **Q. WHY IS DESC PROPOSING TO IMPLEMENT DEMAND SIDE MANAGEMENT**
5 **("DSM") PROGRAMS FOR ITS GAS CUSTOMERS?**

6 A. As the Commission is aware, DESC is committed to developing and implementing
7 DSM and energy efficiency ("EE") programs for its electric customers, as those programs
8 were approved in Commission Order No. 2010-472, as affirmed and modified by Order
9 No. 2013-826 and Order No. 2019-880 ("2019 Order"). Now, DESC wishes to expand its
10 commitment to DSM to the Company's natural gas customers and, based upon the analysis
11 described in Company Witnesses Sheryl Shelton and James Herndon's testimony, DESC
12 seeks approval to offer to its natural gas customers a suite of cost-effective energy
13 efficiency and conservation programs. The details of the programs are more fully
14 discussed in the testimonies of Company Witnesses Shelton and Herndon.

15 **Q. DOES SOUTH CAROLINA HAVE STATUTORY PROVISIONS TO**
16 **ENCOURAGE UTILITIES TO IMPLEMENT DSM PROGRAMS?**

17 A. Yes. In Chapter 37 of Title 58 of the South Carolina Code, the General Assembly
18 enacted Section 58-37-20, which provides for recovery of costs incurred including net lost
19 revenues. The statute also provides for utilities to earn an incentive, which is in place to
20 encourage the deployment of DSM programs. The pertinent part of the statute states:

21 The South Carolina Public Service Commission may adopt procedures that
22 encourage electrical utilities and public utilities providing gas services subject to
23 the jurisdiction of the commission to invest in cost-effective energy efficient
24 technologies and energy conservation programs. If adopted, these procedures must:
25 provide incentives and cost recovery for energy suppliers and distributors who

1 invest in energy supply and end-use technologies that are cost-effective,
2 environmentally acceptable, and reduce energy consumption or demand; allow
3 energy suppliers and distributors to recover costs and obtain a reasonable rate of
4 return on their investment in qualified demand-side management programs
5 sufficient to make these programs at least as financially attractive as construction
6 of new generating facilities; require the Public Service Commission to establish
7 rates and charges that ensure that the net income of an electrical or gas utility
8 regulated by the commission after implementation of specific cost-effective energy
9 conservation measures is at least as high as the net income would have been if the
10 energy conservation measures had not been implemented.

11 In applying the statute to DESC, the Company understands the following:

- 12 1) The Commission may adopt procedures that encourage DESC to invest in cost-
13 effective energy efficient technologies and energy conservation programs.
- 14 2) If the Commission chooses to adopt such procedures, those procedures must
15 provide DESC with a method for recovering its costs and an incentive that provides
16 a reasonable rate of return for investing in qualifying programs.
- 17 3) If the Commission adopts the Company's proposed Natural Gas EE Programs in
18 this docket, then the Commission must establish rates and charges for DESC that
19 ensure that the Company's net income is at least as high as it would have been if
20 the Company would have not implemented the proposed Natural Gas EE Programs.

21 My testimony will address all three of these provisions and explain why our filing is fully
22 authorized by South Carolina law and based on sound regulatory theory and practice.

23 **EXPLANATION OF THE PROPOSED GAS DSM RIDER**

24 **Q. WHAT IS THE PURPOSE OF THE GAS DSM RIDER?**

25 A. It is my understanding that S.C. Code Ann. § 58-37-20 requires the Commission to
26 allow DESC to establish rates that ensure that the Company's net income remains at least
27 as high as it would have been if it not implemented the proposed Natural Gas EE Programs.

28 The Gas DSM Rider accomplishes this statutory mandate by allowing DESC to recover

1 the costs spent on Gas DSM programs and earn an incentive equal to a portion of the
2 customer savings created by the Company's DSM programs.

3 **Q. PLEASE EXPLAIN THE DESIGN OF THE GAS DSM RIDER.**

4 A. As more fully explained below and as described in Exhibit No. ____ (JRS-1), the
5 proposed Gas DSM Rider allows DESC to recover its program costs related to the proposed
6 Natural Gas EE Programs and earn a Shared Savings Incentive ("SSI") associated with
7 offering the proposed programs to DESC's customers. These amounts are recovered
8 through the application of a charge per therm that is specifically calculated for residential
9 and commercial customer classes.

10 **Q. WHAT IS DESC SEEKING TO RECOVER THROUGH THE PROPOSED GAS**
11 **DSM RIDER?**

12 A. DESC seeks to recover its reasonable and prudent costs incurred to implement and
13 operate the Gas DSM programs, including administrative and general costs and overheads,
14 as well as historical costs and an SSI. Net lost revenues resulting from reduced therm sales
15 are inherently reflected in the billing units and revenues presented in the Company's annual
16 RSA proceeding. As a result, recovery of net lost revenues will not be included in the Gas
17 DSM Rider.

18 **Q. HOW DOES THE PROPOSED GAS DSM RIDER DIFFER FROM THE**
19 **ELECTRIC DSM RIDER THAT APPLIES TO THE COMPANY'S ELECTRIC**
20 **CUSTOMERS?**

21 A. The proposed Gas DSM Rider is structurally similar to DESC's Electric DSM rate
22 rider, as approved in the 2019 Order. Like the Electric DSM rate rider, the proposed Gas
23 DSM Rider will:

- Utilize a recovery amortization period of three years;
- Utilize the Company's weighted average cost of debt as the carrying cost applied to unrecovered Gas DSM balances; and
- Utilize an SSI of 9.9%.

Recovery of DESC's net lost revenues, however, will differ from the process the Company uses for its electric DSM programs. Since reduced therm sales will be reflected in the billing units and revenues for the Company's annual RSA proceeding, DESC proposes to incorporate its net lost revenues through the Company's annual RSA proceeding. The process will also differ because DESC plans to annually include the SSI associated with each program year, as opposed to amortizing the incentive over a certain number of years. The Company believes this is the proper method for including the SSI because of its minimal contribution to the Gas DSM Rider.

Q. DOES THE GAS DSM RIDER APPLY TO ALL RATE CLASSES?

A. No. As described in Exhibit No. ____ (JRS-1), the Gas DSM Rider will only apply to the Company's residential and commercial rate classes. Specifically, the proposed Gas DSM Rider will apply to the following rate classes: Rate 32S - Residential Standard Service; Rate 32V - Residential Value Service; Rate 31 - Small Firm General Service; and Rate 33 - Medium General Service. The proposed Gas DSM Rider will not apply to the Company's industrial rate classes; therefore, no opt-out provision is being proposed.

Q. HOW DOES THE COMPANY PROPOSE TO AMORTIZE PROGRAM COSTS?

A. DESC plans to amortize program costs over a period of three years. This amortization period is the same period that DESC uses for its Electric DSM program costs, as the Commission approved a three-year amortization period in the 2019 Order. DESC's

1 proposed use of a three-year amortization period means that the Company's gas rates will
2 more closely track program expenses from year to year. The Company's use of a three-
3 year amortization period will help counteract the inherent lag in rate recovery of program
4 costs under the proposed Gas DSM Rider and will provide customers and stakeholders with
5 clarity of program costs.

6 **Q. PLEASE BRIEFLY EXPLAIN WHY A THREE-YEAR AMORTIZATION**
7 **PERIOD IS PREFERRABLE OVER A LONGER PERIOD.**

8 A. A three-year amortization period minimizes the amount of Gas DSM costs that
9 DESC accumulates as a regulatory asset, which reduces carrying costs compared to longer
10 amortization periods. This is particularly important during periods of increased spending
11 on DSM programs as the Company has proposed here. For example, the projected balance
12 of deferred costs would be approximately \$3.7M in 2025 if the Company were to use a
13 five-year amortization period. But, by using a three-year amortization period as the
14 Company proposes here, the projected balance of deferred costs is projected to be
15 approximately \$3.1M in 2025. Thus, a three-year amortization period reduces the
16 projected regulatory asset balance by 16% versus a five-year period.

17 **Q. PLEASE EXPLAIN THE PROPOSAL TO USE THE COMPANY'S EMBEDDED**
18 **COST OF LONG-TERM DEBT AS THE CARRYING COST ON UNRECOVERED**
19 **GAS DSM AMOUNTS.**

20 A. DESC proposes to apply the Company's weighted average cost of debt to
21 unrecovered Gas DSM balances. DESC uses this method for calculating carrying costs for
22 its Electric DSM programs, as the Commission approved that method in the 2019 Order.
23 DESC's method of recovering its carrying costs is in accordance with the terms of S.C.

1 Code Ann. § 58-37-20, which provides that energy suppliers shall be allowed “to recover
2 costs and obtain a reasonable rate of return on their investment...” The Company’s
3 weighted average cost of debt as of December 31, 2021, is 5.62%.

4 Considering the expansion of the DSM investment that is proposed here and the
5 projected size of the Company’s deferred balances, the Company requests that the
6 Commission—like it did in the 2019 Order—approve the Company to apply its weighted
7 average cost of debt to unrecovered balances. By using the cost of debt rate, the Company
8 has proposed a ratepayer-friendly approach that remains consistent with the statutory
9 mandate. Moreover, this rate would annually update to the then current cost of debt rate
10 when the Company completes its annual update to the proposed Gas DSM Rider in July of
11 each year as proposed by Company Witness Shelton.

12 **EXPLANATION OF THE SHARED SAVINGS INCENTIVE**

13 **Q. WHY HAS THE COMPANY SELECTED A SHARED SAVINGS INCENTIVE**
14 **RATE OF 9.9%?**

15 A. As Company Witness Shelton will explain, an incentive is necessary to fulfil the
16 statutory requirements of S.C. Code Ann. § 58-37-20. DESC has proposed an SSI rate of
17 9.9% as an appropriate incentive for the proposed Natural Gas EE Programs. The
18 Company believes the proposed rate is appropriate because it allows the Company to
19 maintain consistency throughout the Company’s business units as the proposed rate is
20 identical to the rate that the Commission approved in the 2019 Order for the Company’s
21 suite of electric DSM programs. Accordingly, DESC requests that the Commission
22 approve a 9.9% SSI for the proposed Natural Gas EE Programs.

1 The Company projects that the incentive will equal \$5,375 annually for Program
2 Years 1 through 5 based upon the proposed rate of 9.9%. In other words, the proposed
3 incentive both adequately incentivizes DESC to invest in the proposed Natural Gas EE
4 Programs and ensures that DESC's customers receive over 90% of the benefits generated
5 by the Company's Gas DSM investment.

6 **EXPLANATION OF RECOVERY OF NET LOST REVENUES UNDER THE RSA**

7 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER NET LOST REVENUES**
8 **ASSOCIATED WITH THE PROPOSED NATURAL GAS EE PROGRAMS?**

9 A. Net lost revenues will reflect the reduction in demand charges and therm sales as a
10 result of customer participation in the Gas DSM programs exclusive of the reductions that
11 would have occurred in the absence of the programs. DESC intends to recover net lost
12 revenues resulting from the proposed Natural Gas EE Programs through the Company's
13 annual Natural Gas RSA proceeding. Under standard rate making methodologies, the net
14 lost contribution to margin revenue will be reflected in the new rates established by the
15 annual RSA proceeding. The Company advised both the South Carolina Office of
16 Regulatory Staff and the DESC Energy Efficiency Advisory Group of its intent to proceed
17 in this manner. DESC will continue to file an RSA monitoring report under S.C. Code
18 Ann. § 58-5-430 and 58-5-440 with the Commission for the 12-month period ending on
19 March 31 of each year on or before June 15, with rates effective the first billing cycle in
20 November. The Company requests that any adjustment to the Gas DSM Rider and
21 impacted gas rate schedules take effect contemporaneously with the Commission's Initial
22 Order in the Company's annual RSA docket.

1 As noted in the Company's application, DESC may include an adjustment in the
2 future to the Gas DSM Rider to recover the net lost revenues resulting from the proposed
3 Gas DSM programs. As an example, such an adjustment may be necessary to recover net
4 lost revenues in the event that the Company chooses not to elect to the terms of the RSA
5 statute in the future following a general rate case proceeding.

6 **Q. IS IT MORE EFFICIENT TO RECOVER NET LOST REVENUES IN THE**
7 **COMPANY'S ANNUAL RSA PROCEEDING?**

8 A. Yes. The Company will capture its net lost revenues through its annual RSA
9 proceeding. Use of the annual RSA proceeding ensures that actual net lost revenues
10 resulting from Gas DSM programs during the RSA test year are captured in the Company's
11 annual adjustment to its gas rate schedules.

12 **Q. WHY IS DESC SEEKING TO RECOVER NET LOST REVENUES IN ITS**
13 **ANNUAL RSA PROCEEDING INSTEAD OF IN THE GAS DSM RIDER?**

14 A. The annual RSA proceeding allows utilities to reset base rates annually, which
15 eliminates the need for DESC to include an estimate for net lost revenue in its Gas DSM
16 Rider as is done for the Company's Electric DSM rider. There is no statutorily approved
17 annual proceeding for electric utilities to reset base rates; therefore, several years could
18 elapse between retail electric rate cases where annual net lost revenues resulting from
19 electric DSM programs would not be recovered. As such, electric net lost revenues are
20 included in the Company's Electric DSM rider. Conversely, the annual RSA proceeding
21 will inherently incorporate net lost revenues for each RSA test year; therefore, DESC
22 proposes to not include net lost revenues as a separate component of the Gas DSM Rider
23 and will instead recover them through the company's annual RSA proceeding.

ANNUAL REVIEW PROCESS

Q. IS THE COMPANY PROPOSING A PROCESS DIFFERENT FROM WHAT IT CURRENTLY USES TO ANNUALLY REVIEW ITS ELECTRIC DSM PROGRAMS AND ADJUSTMENTS TO THE ELECTRIC DSM RATE RIDER?

A. No. The Company proposes to also use the practice presently established by Order No. 2012-472 and amended by Order No. 2013-826 and the 2019 Order. This process calls for an annual review of the DSM program and adjustments to the rate rider. As mentioned earlier, however, the Company is proposing that any rate adjustments become effective concurrent with the annual RSA process in order to be efficient with rate administration as well as customer communications regarding rate changes.

CONCLUSION

Q. DOES THE COMPANY EXPECT THAT THE PROPOSED PROGRAMS WILL IMPACT THE BILL OF ITS RESIDENTIAL CUSTOMERS?

A. Yes. The Company estimates that the costs associated with the four new Natural Gas EE Programs would have an initial impact within the range of \$0.15-\$0.20 on the monthly bill for a residential natural gas customer using 100 therms.

Q. WHAT IS THE COMPANY ASKING OF THE COMMISSION IN THIS PROCEEDING WITH REGARDS TO THE GAS DSM RIDER?

A. DESC seeks approval to establish a Gas DSM Rider that will:

- Establish a Gas DSM account in which the Company may defer the Gas DSM costs;
- Utilize an amortization period of three years for the recovery of program costs;

- Apply the Company's weighted average cost of debt to unrecovered Gas DSM regulatory asset balances;
- Provide the Company with an SSI that is equivalent to 9.9% of the net customer benefit provided by proposed Natural Gas EE Programs; and
- Approve the monitoring report timeline proposed in the Company's Application.

Q. WHAT IS DESC ASKING OF THE COMMISSION IN THIS PROCEEDING WITH REGARDS TO THE COMPANY'S NET LOST REVENUES?

A. At this time DESC does not have a specific request relating to its net lost revenues, as the Company wishes to use this proceeding to notify the Commission of the Company's intent to seek recovery of its net lost revenues during its annual RSA proceedings.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

RIDER TO GAS RATES**DEMAND SIDE MANAGEMENT COMPONENT****APPLICABILITY**

Service supplied under the Company's residential and commercial gas rate schedules, as set forth below, is subject to approved Demand Side Management (DSM) program cost adjustments. The rates shown below are applicable to and a part of the Company's South Carolina gas rate schedules and included in the monthly rate provision of the applicable schedule used in billing and shall therefore be added to customer's monthly bill statement:

DSM RATES BY CLASS (\$/therm)

<u>Customer Class</u>	<u>DSM Factors</u>
Residential	- per therm
Commercial	- per therm

DERIVATION OF FACTORS

Demand Side Management costs to be recovered in an amount rounded to the nearest one-thousandth of a cent per therm will be determined by the following formula:

$$A = D / S$$

A = Customer Class Specific DSM Program Costs Rate Adjustment per therm applied to base rates rounded to the nearest one-thousandth of a cent.

D = DSM revenue requirement for the period calculated as (C + R)

Where:

C = One year of Amortization Expense (based upon the balance of DSM Program Costs at the beginning of the annual review period) plus associated Carrying Costs (calculated using the Company's Weighted Average Cost of Debt)

R = DSM Program Incentive to be calculated by multiplying the estimated Net Present Value Benefit of each gas efficiency program as determined by the Total Resource Cost Test times 9.9%.

S = Projected customer class specific sales, defined as gas therm sales from each class of customers for the current period.

The appropriate revenue-related tax factor is to be included in these calculations.

DEFINITIONS

1. Annual Review Period - The period of time between June 1 and May 31.
2. Amortization Period - The period of time which the Company's DSM program costs are deferred and amortized.
3. Customer Class - The Company's classification of customers based on similar therm usage characteristics. These are defined as follows:

Residential:

Rate 32S - Residential Standard Service, Rate 32V - Residential Value Service

Commercial

Rate 31 - Small Firm General Service, Rate 33 - Medium General Service

WEATHER NORMALIZATION ADJUSTMENT

An adjustment to commodity charges for the billing months of November-April will be made in accordance with the Weather Normalization Adjustment.

SALES AND FRANCHISE TAX

To the above will be added any applicable sales tax, franchise fee or business license tax which may be assessed by any state or local governmental body.

PAYMENT TERMS

All bills are net and payable when rendered.

TERM OF CONTRACT

The contract terms will be the same as those incorporated in the rate tariff under which customer receives gas service.

GENERAL TERMS AND CONDITIONS

The Company's General Terms and Conditions are incorporated by reference and form a part of this rider.